

June 21, 2021

## Essential Utilities, Inc.

(WTRG/NYSE)

Rating/Risk:	Outperform/Low
Price:	\$46.63
Target Price (\$US):	\$54.00
Market Cap (\$US millions):	\$11,740
ADTV (US\$ millions):	\$63.0

Target Price and Rating are for 12 months.

Estimates	EPS		Revenue (Net)		P/E
	B&S	Cons.	B&S	Cons.	
2019A	\$1.00	-	\$889.7	-	46.6x
2020A	\$1.12	-	\$1,463	-	41.7x
2021E	\$1.68	\$1.67	\$1,839	\$1,908	27.8x
2022E	\$1.82	\$1.80	\$1,955	\$2,010	25.6x

FYE 12/30; Revenue in USD millions.

All historical EPS and B&S EPS estimates GAAP.

Source: Capital IQ, B&S Estimates

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## Research Flash Update

### Tour of Aqua's state-of-the-art environmental lab affirms thesis as PA's teethier WQAA advances.

We toured Aqua's recently completed 14,700 sq. foot environmental lab, located at Essential's corporate headquarters in Bryn Mawr, PA. Led by Chief Environmental, Safety, and Sustainability Officer Chris Crockett, our tour affirmed several key aspects of the investment thesis for WTRG. In particular, the lab's opening is timely given the likely imminent passage of PA 597, PA's water quality accountability legislation (unlike in NJ, where WQAA is still not being enforced due to DEP foot-dragging, the PA law will be implemented by the PUC, which aims to enforce it vigorously). The Bryn Mawr lab positions Aqua well as a partner for local water systems as they struggle to meet WQAA testing and compliance reporting requirements.

While it's predictable that Essential itself touts the new lab, our in-person tour independently confirms that the lab is in fact impressive. We've toured environmental labs for peer companies and major, big city municipal water/WW utilities, and Aqua's is the largest and most advanced environmental water testing facility we've seen yet.

#### Below are some of the key attributes of the new facility:

- Certified for environmental compliance reporting in five states (Ohio, Pennsylvania, New Jersey, North Carolina, Virginia).
- Equipped for 300,000 tests annually on 30,000 water samples.
- Comprehensive microbiological, organic, and inorganic analysis.
- Liquid Chromatography tandem Mass Spectrometry (LC-MS-MS) capabilities test for PFAS at demanding parts per trillion levels.
- Dedicated space for piloting cutting-edge analytical technologies.
- 20 employees; room to expand as organization grows.

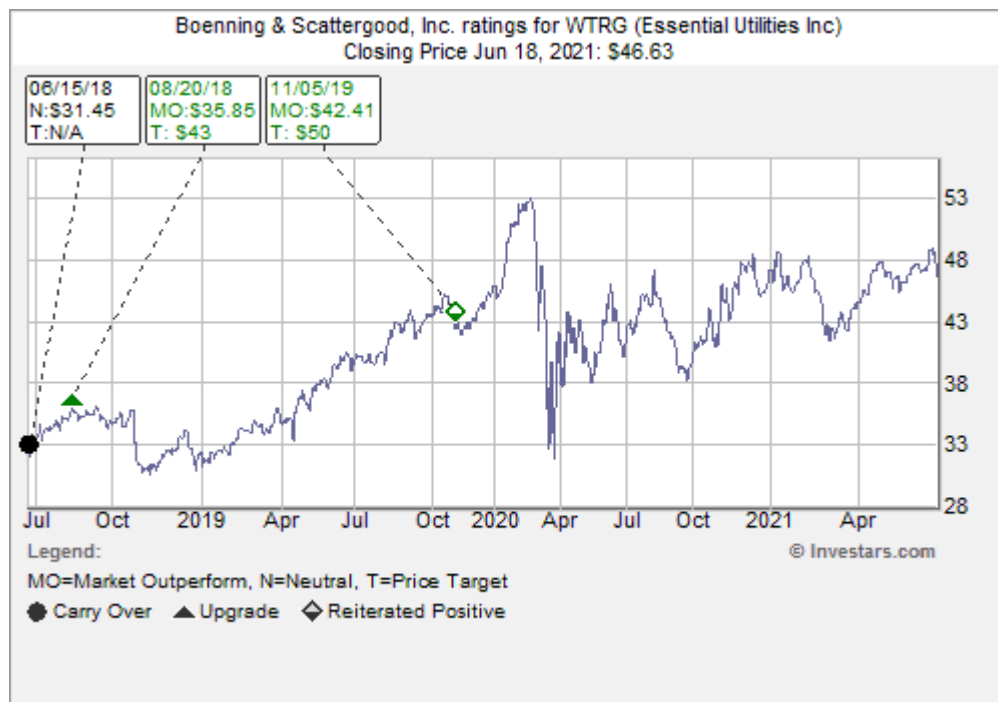
WTRG trades at a discount to water utility peers, and a trite refrain is that Essential's foray into gas makes the company "less sustainable" and inhibits a full "ESG multiple". We don't buy this, seeing Essential as among the most sustainable companies in the space, and the state-of-the-art Bryn Mawr lab affirms this, highlighting that this is not only still very much a water company, but one at the forefront of addressing difficult issues like PFAS. Meanwhile, environmentally sound natural gas is crucial to Western PA's energy mix, and years of observing the industry from the frontlines (not puffy ESG reports) inform our view of Essential's sound corporate governance and excellent employee/customer/community/regulatory relations.

Our \$54 target reflects a P/E of 32 times, in-line with water peers.

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## Disclosure Appendix

### Rating and Price Target History:



### Risk Factors

The realization of any or all of the following risk factors, among others, may adversely affect the company's stock price and prevent it from reaching our price target: the economic cycle, concentration in energy sector, foreign currency exposure, and client concentration.

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- **Moderate:** The security has average fundamental predictability and/or average price volatility.
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Coverage Universe (a)	% of Universe	Investment Banking Clients (b)	% of Rating Group
Outperform (Buy)	38%	Outperform (Buy)	7%
Neutral (Hold)	47%	Neutral (Hold)	3%
Underperform (Sell)	1%	Underperform (Sell)	100%
Not Rated	14%	Not Rated	10%

(a) Related to services provided within the past 12 months.

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